

ALGONA COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2006

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Algona Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 Election)		
Pam Wymore	President	2005
Carl Westling	Vice President	2006
Floyd Lavrenz	Board Member	2007
Dale Person	Board Member	2005
Marc Singer	Board Member	2005
David Fenchel	Board Member	2007
Keith Kuecker	Board Member	2006
Board of Education (After September 2005 Election)		
David Fenchel	President	2007
Carl Westling	Vice President	2006
Floyd Lavrenz	Board Member	2007
Dale Person	Board Member	2008
Rodney Davis	Board Member	2008
Marc Singer	Board Member	2008
Keith Kuecker	Board Member	2006
School Officials		
Harold D. Prior	Superintendent	2006
Gail I. Carroll	District Secretary	2006
Carol Kenyon	District Treasurer	2006
Stephen F. Avery	Attorney	2006

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3050

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Algona Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Algona Community School District, Algona, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Algona Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated March 20, 2007 on our consideration of Algona Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of those reports are to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 31 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board.

Members American Institute & Iowa Society of Certified Public Accountants

We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Algona Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2005 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

March 20, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

Algona Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$11,952,955 in fiscal 2005 to \$11,907,783 in fiscal 2006, while General Fund expenditures increased from \$11,847,183 in fiscal 2005 to \$12,316,387 in fiscal 2006. This resulted in a decrease in the District's General Fund balance from \$1,116,914 in fiscal 2005 to a balance of \$713,226 in fiscal 2006.
- The decrease in General Fund revenues was attributable to decreases in local tax and federal revenue in fiscal 2006. The increase in expenditures was due primarily to an increase in spending in instruction and support services.
- Overall the District experienced an increase in net assets in the governmental-type activities of \$266,980 and a decrease in the business-type activities of \$1,509, respectively.
- During the year, the District continued to receive Local Option Sales and Service Tax from Kossuth County. This resulted in an increase in revenue in the Capital Projects Fund of \$25,790.
- The September 2005 Certified Enrollment count resulted in a decrease of 39.5 students, representing a 3.2% decrease compared to the prior year.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Algona Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Algona Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Algona Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District’s budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

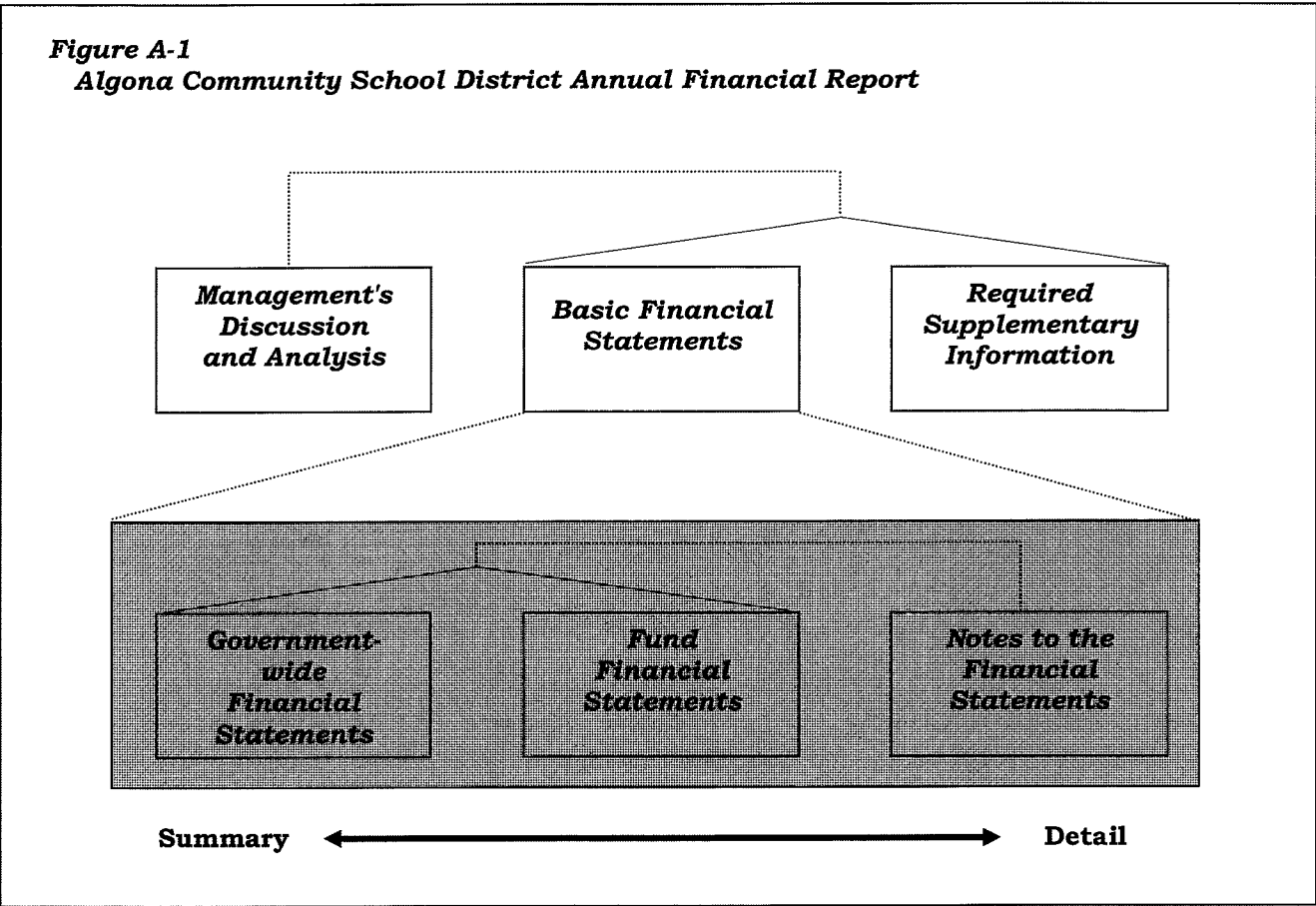


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2			
Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the

District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds and Capital Projects.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund. The District's internal service fund, one type of proprietary fund, is the same as the governmental activities, but provide more detail and additional information, such as cash flows. The District currently has two internal service funds.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliation between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 7,110,480	7,363,832	17,491	17,989	7,127,971	7,381,821	-3.44%
Capital assets	3,760,929	3,491,051	21,611	15,653	3,782,540	3,506,704	7.87%
Total assets	10,871,409	10,854,883	39,102	33,642	10,910,511	10,888,525	0.20%
Long-term obligations	0	126	0	0	0	126	-100.00%
Other liabilities	4,479,107	4,729,435	15,969	9,000	4,495,076	4,738,435	-5.14%
Total liabilities	4,479,107	4,729,561	15,969	9,000	4,495,076	4,738,561	-5.14%
Net assets:							
Invested in capital assets, net of related debt	3,760,929	3,491,051	21,611	15,653	3,782,540	3,506,704	7.87%
Restricted	897,582	916,325	0	0	897,582	916,325	-2.05%
Unrestricted	1,733,791	1,717,946	1,522	8,989	1,735,313	1,726,935	0.49%
Total net assets	\$ 6,392,302	6,125,322	23,133	24,642	6,415,435	6,149,964	4.32%

The District's combined net assets increased by 4.32%, or \$265,471, over the prior year. The largest portion of the District's net assets is the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets decreased \$18,743, or 2.05% over the prior year.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - increased \$8,378 or 0.49%.

Figure A-4 shows the changes in net assets for the years ended June 30, 2006 and 2005.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 1,871,515	1,734,143	280,445	292,883	2,151,960	2,027,026	6.16%
Operating grants and contributions and restricted interest	1,515,330	1,569,680	191,607	188,047	1,706,937	1,757,727	-2.89%
General revenues:							
Property tax	4,866,461	5,043,028	0	0	4,866,461	5,043,028	-3.50%
Local option sales and service tax	748,169	722,379	0	0	748,169	722,379	3.57%
Unrestricted state grants	4,427,544	4,391,934	0	0	4,427,544	4,391,934	0.81%
Other	89,491	30,323	0	0	89,491	30,323	195.13%
Total revenues	13,518,510	13,491,487	472,052	480,930	13,990,562	13,972,417	0.13%
Program expenses:							
Governmental activities:							
Instructional	8,779,218	9,097,260	0	0	8,779,218	9,097,260	-3.50%
Support services	3,562,976	3,178,242	0	0	3,562,976	3,178,242	12.11%
Non-instructional programs	0	0	482,827	495,724	482,827	495,724	-2.60%
Other expenses	909,336	809,565	0	0	909,336	809,565	12.32%
Total expenses	13,251,530	13,085,067	482,827	495,724	13,734,357	13,580,791	1.13%
Changes in net assets before other financing sources	266,980	406,420	(10,775)	(14,794)	256,205	391,626	-34.58%
Other financing sources, net	0	0	9,266	0	9,266	0	100.00%
Change in net assets	266,980	406,420	(1,509)	(14,794)	265,471	391,626	-32.21%
Net assets beginning of year	6,125,322	5,718,902	24,642	39,436	6,149,964	5,758,338	6.80%
Net assets end of year	\$ 6,392,302	6,125,322	23,133	24,642	6,415,435	6,149,964	4.32%

In fiscal 2006, property tax and unrestricted state grants account for 68.8% of the revenue from governmental activities while charges for services and operating grants and contributions account for 100.0% of the revenue from business type activities.

The District's total revenues were approximately \$14.0 million of which \$13.5 million was for governmental activities and less than \$0.5 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 0.13% in revenues and a 1.13% increase in expenses. The increase in expenses was related to the increase in support services and other expense costs during the year.

Governmental Activities

Revenues for governmental activities were \$13,518,510 and expenses were \$13,251,530.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 8,779,218	6,040,608
Support services	3,562,976	3,349,125
Other expenses	909,336	474,952
Totals	<u>\$ 13,251,530</u>	<u>9,864,685</u>

- The cost financed by users of the District's programs was \$1,871,515.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,515,330.
- The net cost of governmental activities was financed with \$4,866,461 in local tax, \$748,169 in local option sales and service tax, \$4,427,544 in unrestricted state grants and \$29,886 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$472,052 and expenses were \$482,827. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Algona Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,586,791, compared to last year's ending fund balances of \$1,995,187. However, the primary reason for the decrease was due to the decrease in fund balances of the General and Capital Projects Funds.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the product of many factors. Decreases in local and federal source revenues in 2006 guaranteed a decrease in revenues. This coupled with increases in expenditures ensured the decline in the District's General Fund balance.
- The Special Revenue, Management Levy Fund increased from \$190,053 in 2005 to \$257,741 in 2006. The increase in revenues was more than enough to offset the increase in expenditures during 2006 ensuring the increase in fund balance.
- An increase in local option sales and service tax during 2006 resulted in an increase revenues for the Capital Projects Fund in 2006. Although the Capital Projects revenues increased during 2006, the increase in revenues was not enough to offset the increase in expenditures causing the Capital Projects fund balance to decrease from \$516,716 in 2005 to \$366,719 in 2006.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$24,642 at June 30, 2005 to \$23,133 at June 30, 2006, representing a decrease of approximately 6.12%.

BUDGETARY HIGHLIGHTS

Over the course of the year, Algona Community School District amended its budget one time to reflect additional expenditures. The amendment increased expenditures in all functions by \$2,147,497.

The District's revenues were \$1,179,345 more than budgeted revenues, a variance of 9.2%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services function due to the timing of expenditures paid at year-end without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$3,782,540, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 7.87% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$424,937.

The original cost of the District's capital assets was \$12,209,188. Governmental funds account for \$12,101,853 with the remainder of \$107,335 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$328,431 at June 30, 2006 compared to \$0 at June 30, 2005. This increase resulted from the locker room project currently in progress at the school.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-2006
Land	\$ 37,674	37,674	0	0	37,674	37,674	0.00%
Construction in progress	328,431	0	0	0	328,431	0	100.00%
Buildings	2,713,402	2,777,108	0	0	2,713,402	2,777,108	-2.29%
Land improvements	108,301	110,919	0	0	108,301	110,919	-2.36%
Machinery and equipment	573,121	565,350	21,611	15,653	594,732	581,003	2.36%
Total	\$ 3,760,929	3,491,051	21,611	15,653	3,782,540	3,506,704	7.87%

Long-Term Debt

At June 30, 2006, the District had no long-term debt outstanding. This represents a decrease of 100.0% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total
	2006	2005	Change
Early retirement	\$ 0	126	-100.0%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- A pattern of declining enrollment persists in the District. Enrollment has declined for the past 6 years, and projections of enrollment and the birth rate indicate several more years of decline. This will reduce the amount of revenue available to fund educational programs and service in the future.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- The elimination of the "budget guarantee" at 10% each year is reducing revenues to the District each year.
- Rapid and persistent increases in insurance costs and energy costs will create more financial hardships for the District in the future.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Carol Kenyon, District Treasurer, Algona Community School District, Box 717, 200 North Phillips, Algona, Iowa, 50511.

BASIC FINANCIAL STATEMENTS

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments	\$ 2,058,630	1,373	2,060,003
Receivables:			
Property tax:			
Delinquent	77,044	0	77,044
Succeeding year	4,239,225	0	4,239,225
Income surtax	385,700	0	385,700
Interfund	15,000	0	15,000
Accounts	26,175	0	26,175
Due from other governments	308,706	0	308,706
Inventories	0	16,118	16,118
Capital assets, net of accumulated depreciation (Note 4)	3,760,929	21,611	3,782,540
Assets	10,871,409	39,102	10,910,511
Liabilities			
Accounts payable	53,204	0	53,204
Interfund payable	0	15,000	15,000
Salaries and benefits payable	61,046	0	61,046
Incurred but not reported	125,000	0	125,000
Deferred revenue:			
Succeeding year property tax	4,239,225	0	4,239,225
Other	632	0	632
Unearned revenue	0	969	969
Total Liabilities	4,479,107	15,969	4,495,076
Net Assets			
Investment in capital assets, net of related debt	3,760,929	21,611	3,782,540
Restricted for:			
Talented and gifted	21,740	0	21,740
Salary improvement program	2,277	0	2,277
Capital projects	366,719	0	366,719
Physical plant & equipment levy	79,147	0	79,147
Management levy	257,741	0	257,741
Other special revenue purposes	169,958	0	169,958
Unrestricted	1,733,791	1,522	1,735,313
Total Net Assets	\$ 6,392,302	23,133	6,415,435

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Govern- mental Activities	Business- Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 4,760,476	487,810	830,081	(3,442,585)	0	(3,442,585)
Special instruction	2,435,227	759,946	82,458	(1,592,823)	0	(1,592,823)
Other instruction	1,583,515	569,903	8,412	(1,005,200)	0	(1,005,200)
	8,779,218	1,817,659	920,951	(6,040,608)	0	(6,040,608)
Support services:						
Student services	292,234	0	0	(292,234)	0	(292,234)
Instructional staff services	311,336	0	0	(311,336)	0	(311,336)
Administration services	1,162,500	0	0	(1,162,500)	0	(1,162,500)
Operation and maintenance of plant services	1,251,365	0	0	(1,251,365)	0	(1,251,365)
Transportation services	545,541	53,856	159,995	(331,690)	0	(331,690)
	3,562,976	53,856	159,995	(3,349,125)	0	(3,349,125)
Other expenditures:						
Facility acquisitions	216,713	0	0	(216,713)	0	(216,713)
AEA flowthrough	434,384	0	434,384	0	0	0
Depreciation(unallocated)*	258,239	0	0	(258,239)	0	(258,239)
	909,336	0	434,384	(474,952)	0	(474,952)
Total governmental activities	13,251,530	1,871,515	1,515,330	(9,864,685)	0	(9,864,685)
Business-Type activities:						
Non-instructional programs:						
Nutrition services	482,827	280,445	191,607	0	(10,775)	(10,775)
Total business-type activities	482,827	280,445	191,607	0	(10,775)	(10,775)
Total	\$ 13,734,357	2,151,960	1,706,937	(9,864,685)	(10,775)	(9,875,460)
General Revenues:						
Property tax levied for:						
General purposes				\$ 4,765,766	0	4,765,766
Capital outlay				100,695	0	100,695
Local option sales and service tax				748,169	0	748,169
Unrestricted state grants				4,427,544	0	4,427,544
Unrestricted investment earnings				29,886	0	29,886
Other				59,605	0	59,605
Total general revenues				10,131,665	0	10,131,665
Changes in net assets before contributed capital				266,980	(10,775)	256,205
Contributed capital				0	9,266	9,266
Changes in net assets				266,980	(1,509)	265,471
Net assets beginning of year				6,125,322	24,642	6,149,964
Net assets end of year				\$ 6,392,302	23,133	6,415,435

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Management Levy	Capital Projects	Nonmajor Special Revenue	Total
Assets					
Cash and pooled investments	\$ 498,289	252,984	307,269	229,170	1,287,712
Receivables:					
Property tax					
Delinquent	70,926	4,366	0	1,752	77,044
Succeeding year	4,004,225	235,000	0	0	4,239,225
Income surtax	385,700	0	0	0	385,700
Accounts	9,054	391	583	3,183	13,211
Interfund	0	0	0	15,000	15,000
Due from other governments	249,839	0	58,867	0	308,706
Total Assets	\$ 5,218,033	492,741	366,719	249,105	6,326,598
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 53,204	0	0	0	53,204
Salaries and benefits payable	61,046	0	0	0	61,046
Deferred revenue:					
Succeeding year property tax	4,004,225	235,000	0	0	4,239,225
Income surtax	385,700	0	0	0	385,700
Other	632	0	0	0	632
Total liabilities	4,504,807	235,000	0	0	4,739,807
Fund balances:					
Reserved for:					
Talented and gifted	21,740	0	0	0	21,740
Salary improvement program	2,277	0	0	0	2,277
Unreserved	689,209	257,741	366,719	249,105	1,562,774
Total fund balances	713,226	257,741	366,719	249,105	1,586,791
Total Liabilities and Fund Balances	\$ 5,218,033	492,741	366,719	249,105	6,326,598

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances of governmental funds (page 15) \$ 1,586,791

*Amounts reported for governmental activities in the
statement of net assets are different because:*

Capital assets used in governmental activities are not
financial resources and, therefore, are not reported as
assets in in the governmental funds. 3,760,929

Blending of the Internal Service Funds to be reflected
on an entity-wide basis. 658,882

Accounts receivable income surtax, are not yet available
to finance expenditures of the current fiscal period. 385,700

Net assets of governmental activites (page 13) \$ 6,392,302

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Manage- ment Levy	Capital Projects	Nonmajor Special Revenue	Total
REVENUES:					
Local sources:					
Local tax	\$ 4,515,406	250,360	748,169	100,695	5,614,630
Tuition	1,247,756	0	0	0	1,247,756
Other	209,416	11,225	13,473	486,498	720,612
Intermediate sources	1,050	0	0	0	1,050
State sources	5,447,088	219	0	88	5,447,395
Federal sources	487,067	0	0	0	487,067
Total revenues	11,907,783	261,804	761,642	587,281	13,518,510
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	4,876,329	88,966	0	0	4,965,295
Special instruction	2,531,517	0	0	0	2,531,517
Other instruction	1,139,251	0	0	452,690	1,591,941
	8,547,097	88,966	0	452,690	9,088,753
Support services:					
Student services	298,708	0	0	0	298,708
Instructional staff services	279,158	0	36,653	1,588	317,399
Administration services	1,149,015	3,488	6,342	8,393	1,167,238
Operation and maintenance of plant services	1,076,795	83,873	75,128	47,009	1,282,805
Transportation services	531,230	17,789	56,457	0	605,476
	3,334,906	105,150	174,580	56,990	3,671,626
Other expenditures:					
Facilities acquisitions	0	0	737,059	0	737,059
AEA flowthrough	434,384	0	0	0	434,384
	434,384	0	737,059	0	1,171,443
Total expenditures	12,316,387	194,116	911,639	509,680	13,931,822
Excess(deficiency) of revenues over(under) expenditures	(408,604)	67,688	(149,997)	77,601	(413,312)
Other financing sources:					
Sale of equipment	4,916	0	0	0	4,916
Net change in fund balances	(403,688)	67,688	(149,997)	77,601	(408,396)
Fund balance beginning of year	1,116,914	190,053	516,716	171,504	1,995,187
Fund balance end of year	\$ 713,226	257,741	366,719	249,105	1,586,791

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds (page 17) \$ (408,396)

**Amounts reported for governmental activities in the
 statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlays expenditures and depreciation expense in the current year, are as follows:

Capital expenditures	\$ 702,245	
Depreciation expense	(421,290)	
Loss on asset disposal	<u>(11,077)</u>	269,878

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis.	330,372
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

ISEBA assessment	\$ 75,000	
Early retirement	<u>126</u>	<u>75,126</u>

Changes in net assets of governmental activities (page 14)	<u>\$ 266,980</u>
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SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	Business-Type Activities:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service Fund
Assets		
Cash and cash equivalents	\$ 1,373	770,918
Receivables:		
Accounts	0	12,964
Inventories	16,118	0
Capital assets, net of accumulated depreciation (Note 4)	21,611	0
Total Assets	39,102	783,882
Liabilities		
Interfund payable	15,000	0
Unearned revenue	969	0
Incurred but not reported	0	125,000
Total Liabilities	15,969	125,000
Net Assets		
Investment in capital assets	21,611	0
Unrestricted	1,522	658,882
Total Net Assets	\$ 23,133	658,882

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	Business-Type Activities:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service Fund
OPERATING REVENUE:		
Local sources:		
Other local sources:		
Charges for services	\$ 280,445	1,965,586
OPERATING EXPENSES:		
Salaries	142,254	0
Benefits	88,102	1,289,234
Services	3,671	347,093
Supplies	241,988	3,064
Depreciation	3,647	0
Other	265	0
TOTAL OPERATING EXPENSES	479,927	1,639,391
OPERATING INCOME (LOSS)	(199,482)	326,195
NON-OPERATING REVENUES:		
Interest	0	4,177
State sources	6,187	0
Federal sources	185,420	0
TOTAL NON-OPERATING REVENUES	191,607	4,177
Net income(loss) before other financing sources(uses)	(7,875)	330,372
OTHER FINANCING SOURCES(USES)		
Capital contributions	9,266	0
Loss on asset disposal	(2,900)	0
Total other financing sources(uses)	6,366	0
Change in net assets	(1,509)	330,372
Net assets beginning of year	24,642	328,510
Net assets end of year	\$ 23,133	658,882

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	Business-Type Activities:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 277,223	0
Cash received from miscellaneous operating activities	5,590	2,181,335
Cash payments to employees for services	(230,356)	(1,289,234)
Cash payments to suppliers for goods or services	(222,614)	(365,157)
Net cash provided by(used in) operating activities	(170,157)	526,944
Cash flows from non-capital financing activities:		
State grants received	6,187	0
Federal grants received	161,472	0
Net cash provided by non-capital financing activities	167,659	0
Cash flows from investing activities:		
Interest on investments	0	4,177
Cash flows from capital financing activities:		
Purchase of assets	(3,239)	0
Net increase(decrease) in cash and cash equivalents	(5,737)	531,121
Cash and cash equivalents at beginning of year	7,110	239,797
Cash and cash equivalents at end of year	\$ 1,373	770,918
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:		
Operating income(loss)	\$ (199,482)	326,195
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:		
Commodities consumed	23,948	0
Depreciation	3,647	0
Decrease in accounts receivable	0	215,749
Increase in inventories	(6,638)	0
Increase in accounts payable	6,000	0
Decrease in incurred but not reported	0	(15,000)
Increase in deferred revenue	2,368	0
Net cash provided by(used in) operating activities	\$ (170,157)	526,944
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:		
Current assets:		
Cash and pooled investments	\$ 1,373	770,918

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$23,948.

During the year ended June 30, 2006, the Nutrition Fund received capital contributions of \$9,266 from the General Fund.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

(1) Summary of Significant Accounting Policies

The Algona Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Algona and Burt, Iowa, and the predominate agricultural territory in Kossuth County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Algona Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Algona Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Kossuth County Assessors' Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference

reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition of capital facilities.

The Special Revenue - Management Fund is utilized to account for the payment of property insurance and early retirement benefits.

The District reports the following major propriety funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund and the Internal Service Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the District's self-funded health insurance plan.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for

enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 3,500
Buildings	3,500
Land improvements	3,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	3,500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for hourly employees corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the support services function exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2006.

(3) **Due From and Due to Other Funds**

At June 30, 2006 the interfund receivables and payables consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Special Revenue, Student Activity	Enterprise, School Nutrition	<u>\$ 15,000</u>

(4) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 37,674	0	0	37,674
Construction in progress	0	328,431	0	328,431
Total capital assets not being depreciated	37,674	328,431	0	366,105
Capital assets being depreciated:				
Buildings	7,644,893	174,982	0	7,819,875
Land improvements	553,978	16,933	0	570,911
Machinery and equipment	3,368,486	181,899	205,423	3,344,962
Total capital assets being depreciated	11,567,357	373,814	205,423	11,735,748
Less accumulated depreciation for:				
Buildings	4,867,785	238,688	0	5,106,473
Land improvements	443,059	19,551	0	462,610
Machinery and equipment	2,803,136	163,051	194,346	2,771,841
Total accumulated depreciation	8,113,980	421,290	194,346	8,340,924
Total capital assets being depreciated, net	3,453,377	(47,476)	11,077	3,394,824
Governmental activities capital assets, net	\$ 3,491,051	280,955	11,077	3,760,929
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 105,472	12,505	10,642	107,335
Less accumulated depreciation	89,819	3,647	7,742	85,724
Business-type activities capital assets, net	\$ 15,653	8,858	2,900	21,611

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 23,178
Other	6,722
Support services:	
Administration services	43,196
Operation and maintenance of plant services	21,250
Transportation	68,705
	163,051
Unallocated depreciation	258,239
Total governmental activities depreciation expense	\$ 421,290
Business-type activities:	
Food services	\$ 3,647

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Early retirement	\$ 126	0	126	0	0

Early Retirement

The District had previously offered a voluntary early retirement plan to its certified employees, however benefits are still payable on this plan. Early retirement benefits paid during the year ended June 30, 2006 totaled \$126. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$408,208, \$395,567, and \$384,964, respectively, equal to the required contributions for each year.

(7) Risk Management

Algona Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$434,384 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2006, expenditures in the support services function exceeded the amount budgeted.

(10) Construction Commitment

The District has entered into various contracts totaling \$485,352 for a locker room addition and renovation project at the school. As of June 30, 2006, costs of \$328,431 had been incurred against the contracts. The balance of \$156,921 remaining at June 30, 2006 will be paid as work on the project progresses.

REQUIRED SUPPLEMENTARY INFORMATION

ALGONA COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 7,582,998	280,445	7,863,443	6,970,122	6,970,122	893,321
Intermediate sources	1,050	0	1,050	0	0	1,050
State sources	5,447,395	6,187	5,453,582	5,351,595	5,351,595	101,987
Federal sources	487,067	185,420	672,487	489,500	489,500	182,987
Total revenues	13,518,510	472,052	13,990,562	12,811,217	12,811,217	1,179,345
Expenditures:						
Instruction	9,088,753	0	9,088,753	8,681,708	9,750,000	661,247
Support services	3,671,626	0	3,671,626	2,673,345	3,250,000	(421,626)
Non-instructional programs	0	479,927	479,927	426,084	650,000	170,073
Other expenditures	1,171,443	0	1,171,443	971,366	1,250,000	78,557
Total expenditures	13,931,822	479,927	14,411,749	12,752,503	14,900,000	488,251
Excess(deficiency) of revenues over(under) expenditures	(413,312)	(7,875)	(421,187)	58,714	(2,088,783)	1,667,596
Other financing sources, net	4,916	6,366	11,282	1,000	1,000	10,282
Excess(deficiency) of revenues and other financing sources over(under) expenditures	(408,396)	(1,509)	(409,905)	59,714	(2,087,783)	1,677,878
Balance beginning of year	1,995,187	24,642	2,019,829	1,236,037	1,236,037	783,792
Balance end of year	\$ 1,586,791	23,133	1,609,924	1,295,751	(851,746)	2,461,670

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, 2006, the District adopted one budget amendment increasing budgeted expenditures by \$2,147,497.

During the year ended June 30, 2006, expenditures in the support services function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

ALGONA COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2006

	Physical Plant and Equipment	Student Activity	Total
Assets			
Cash and pooled investments	\$ 77,329	151,841	229,170
Receivables:			
Property tax:			
Current year delinquent	1,752	0	1,752
Accounts	66	3,117	3,183
Interfund	0	15,000	15,000
Total Assets	\$ 79,147	169,958	249,105
Liabilities and Fund Balances			
Liabilities	\$ 0	0	0
Unreserved fund balances	79,147	169,958	249,105
Total Liabilities and Fund Balances	\$ 79,147	169,958	249,105

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE
 YEAR ENDED JUNE 30, 2006

	Physical Plant and Equipment Levy	Student Activity	Total
REVENUES:			
Local sources:			
Local tax	\$ 100,695	0	100,695
Other	663	485,835	486,498
State sources	88	0	88
TOTAL REVENUES	101,446	485,835	587,281
EXPENDITURES:			
Current:			
Instruction:			
Other instruction	0	452,690	452,690
Support services:			
Instructional staff services	1,588	0	1,588
Administration services	8,393	0	8,393
Operation and maintenance of plant services	47,009	0	47,009
TOTAL EXPENDITURES	56,990	0	56,990
Excess of revenues over expenditures	44,456	33,145	77,601
Fund balance beginning of year	34,691	136,813	171,504
Fund balance end of year	\$ 79,147	169,958	249,105

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Concession	\$ (10,462)	39,153	47,994	(19,303)
Concession equipment	1,836	629	157	2,308
Interest	0	1,518	1,310	208
Pepsi	(13,701)	13,701	0	0
Public broadcasting	702	90	0	792
Special advertising	18,558	12,105	12,701	17,962
Book fair-Bertha Godfrey	1,947	5,330	4,484	2,793
Leadership-Bertha Godfrey	3,728	14,603	14,044	4,287
Book fair-Bryant	1,694	3,969	4,192	1,471
Leadership-Bryant	2,234	4,587	4,387	2,434
Book fair-Lucia Wallace	1,271	4,442	4,671	1,042
Leadership-Lucia Wallace	16,728	23,326	21,180	18,874
MS-vocal music	259	95	112	242
MS-instrumental music	(1,379)	810	1,086	(1,655)
MS-vocal/band uniforms	871	402	100	1,173
MS-book fair	199	2,425	2,563	61
MS-cheerleaders	1,093	0	0	1,093
MS-leadership	5,493	585	190	5,888
MS-quiz bowl	495	280	142	633
MS-science fair	577	2,946	2,383	1,140
MS-student senate	5,784	5,794	8,222	3,356
MS-student travel	(266)	27,535	27,420	(151)
MS-teams	1,631	24,724	25,640	715
MS-teams 6th grade	3,342	2,466	2,527	3,281
MS-teams 7th grade	2,061	2,466	2,498	2,029
MS-teams 8th grade	1,737	3,060	2,967	1,830
HS drama/speech	754	19,960	17,301	3,413
HS-vocal music	0	5,060	3,635	1,425
HS-instrumental music	(300)	3,625	3,325	0
HS-vocal/band uniforms	2,386	1,226	2,855	757
HS swing choir & band	1,954	974	317	2,611
HS band tour	16,129	33,206	31,805	17,530
HS vocal tour	6,984	19,605	21,794	4,795
HS athletics general	12,433	16,104	12,797	15,740
HS cross country	0	942	942	0
HS boys basketball	0	4,106	4,106	0
HS boys football	0	10,270	10,270	0
HS baseball	0	5,055	5,055	0
HS boys track	0	2,468	2,468	0
HS boys golf	0	1,100	1,100	0
HS wrestling	0	5,884	5,884	0
HS girls basketball	0	3,311	3,311	0
HS volleyball	0	4,875	4,875	0
HS softball	0	5,029	5,029	0
HS girls track	0	4,521	4,521	0
HS girls golf	0	1,079	1,079	0
HS academics	5,344	9,877	6,029	9,192
HS-ACT-ELC	2,481	699	1,510	1,670
HS AFS	6,425	120	0	6,545

ALGONA COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
HS book fair	163	4	0	167
HS cheerleaders	1,510	8,529	8,413	1,626
Class of 2006	406	0	406	0
Class of 2007	2,652	456	2,575	533
Class of 2008	1,246	0	26	1,220
Class of 2009	0	3,820	2,840	980
HS drill team	5,059	7,143	6,709	5,493
FFA	1,300	28,285	29,266	319
Construction club	812	0	718	94
HS leadership	98	2,727	2,390	435
MMH	1,873	350	657	1,566
HS mock trial/ACAD	0	2,219	1,961	258
Model UN	88	1,698	1,332	454
Outdoor club	855	284	55	1,084
P.E. club	7,867	14,939	5,522	17,284
Peer helpers	298	744	472	570
Pep council	1	0	0	1
Prom improvement	521	388	369	540
HS quiz bowl	112	1,286	1,134	264
HS spanish club	2,728	0	0	2,728
HS student senate	302	462	523	241
TV. productions	1,823	2,446	2,966	1,303
Weight lifting club	(26)	0	0	(26)
HS yearbook	(1,214)	17,942	16,728	0
HS special math	64	0	0	64
HS special bowling	377	0	0	377
HS special cross country	(322)	1,062	802	(62)
HS special swim team	2,167	4,441	4,612	1,996
HS special boys basketball	658	4,155	1,840	2,973
HS special football	298	1,352	1,024	626
HS special baseball	(226)	3,674	2,229	1,219
HS special boys track	82	1,921	2,109	(106)
HS special boys golf	818	1,450	1,456	812
HS special wrestling	37	216	245	8
HS special girls basketball	152	4,558	2,481	2,229
HS special volleyball	1,185	2,652	2,625	1,212
HS special softball	2,074	8,423	5,378	5,119
HS special girls track	93	1,129	1,047	175
HS special girls golf	(140)	943	802	1
Total	\$ 136,813	485,835	452,690	169,958

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

Modified Accrual Basis				
Years Ended June 30,				
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 5,614,630	5,742,171	5,725,990	5,161,361
Tuition	1,247,756	1,112,659	886,818	840,316
Other	720,612	649,007	689,877	560,056
Intermediate sources	1,050	0	0	0
State sources	5,447,395	5,285,230	5,335,106	5,512,326
Federal sources	487,067	676,384	427,455	323,790
Total	<u>\$ 13,518,510</u>	<u>13,465,451</u>	<u>13,065,246</u>	<u>12,397,849</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 4,965,295	4,920,243	5,123,535	4,831,378
Special instruction	2,531,517	2,610,995	2,538,533	2,414,339
Other instruction	1,591,941	1,526,829	1,344,987	1,245,368
Support services:				
Student services	298,708	294,861	302,558	284,007
Instructional staff services	317,399	207,896	283,626	241,899
Administration services	1,167,238	1,092,163	935,202	886,629
Operation and maintenance of plant services	1,282,805	1,043,524	941,734	905,488
Transportation services	605,476	482,887	318,694	249,530
Non-instructional	0	0	17,800	8,432
Other expenditures:				
Facilities acquisitions	737,059	416,316	576,657	515,566
Long Term Debt:				
Principal	0	0	600,000	24,180
Interest	0	0	34,740	1,059
AEA flow-through	434,384	430,727	440,718	472,533
Total	<u>\$ 13,931,822</u>	<u>13,026,441</u>	<u>13,458,784</u>	<u>12,080,408</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATION (non-cash)	10.550	FY 06	\$ 23,948
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 06	25,336
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 06	136,136
			<u>161,472</u>
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	0126-G	157,738
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	0126-GC	14,302
			<u>172,040</u>
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)	84.298	FY 06	<u>4,305</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 06	<u>8,054</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 05	6,911
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 06	69,655
			<u>76,566</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 05	<u>7,590</u>
AREA EDUCATION AGENCY:			
TECH-PREP EDUCATION	84.243	FY 05	<u>2,300</u>
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 06	<u>82,458</u>
IOWA PUBLIC TELEVISION:			
STAR SCHOOLS	84.215K	FY 05	<u>6</u>
TOTAL			<u>\$ 538,739</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Algona Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Algona Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Algona Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 20, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Algona Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items II-A-06 is a material weakness.

Compliance and Other Matters

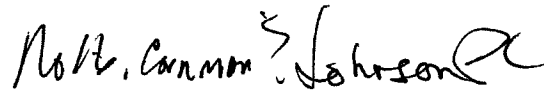
As part of obtaining reasonable assurance about whether Algona Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain

immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Algona Community School District and other parties to Algona Community School District may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Algona Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink, appearing to read "Nolte, Cornman & Johnson" followed by a stylized flourish.

NOLTE, CORNMAN & JOHNSON, P.C.

March 20, 2007

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Board of Education of
Algona Community School District

Compliance

We have audited the compliance of Algona Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Algona Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants agreements applicable to each of its major federal programs is the responsibility of Algona Community School District's management. Our responsibility is to express an opinion on Algona Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Algona Community School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Algona Community School District's compliance with those requirements.

In our opinion, Algona Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Algona Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Algona Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operations that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in

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our judgment, could adversely affect Algona Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-A-06 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item III-A-06 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Algona Community School District and other parties to whom Algona Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

March 20, 2007

ALGONA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - Individual Program:
 - CFDA Number 84.010 - Title I grants to Local Educational agencies
 - Clustered Programs:
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Algona Community School District did not qualify as a low-risk auditee.

ALGONA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part II: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

II-B-06 Check Signatures - We noted during our audit, instances of unauthorized signatures on the District's checks. Chapter 291.1 of the Code of Iowa requires the Board President and Board Secretary to sign all checks. Also pursuant to this section, the Board President may designate an individual to sign warrants on his/her behalf. However, the Board Secretary may not designate an individual to sign in their absence.

Recommendation - The District should review their procedures to ensure that the proper signatures are on all checks before sending them out, in order to be in compliance with Chapter 291.1 and 291.8 of the Code of Iowa.

Response - Due to the timing of our annual audit, checks that were not being signed properly were being caught in the samples for the auditor's distribution tests. The District fixed this problem after the auditors were here in March 2006 for the 2004-05 audit.

Conclusion - Response accepted.

II-C-06 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over a year.

Recommendation - The District should research the outstanding checks to determine if they should be re-issued, voided or submitted to the Treasurer of Iowa as unclaimed property.

Response - We will comply.

Conclusion - Response accepted.

II-D-06 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response - We will comply with this recommendation.

Conclusion - Response accepted.

II-E-06 Student Activity Fund - During our audit concerns arose about the propriety of certain expenditures paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended from. During the audit the following instances were noted:

Target donations were being receipted into the Student Activity Fund. These donations do not specify the purpose other than instructional supplies; therefore, Target donations should be receipted into the General Fund for use in all instructional supplies.

A portion of the cost of cement poured for new bleachers the District installed was paid from the Student Activity Fund. Expenditures for this purpose appear not to meet the criteria of the Student Activity Fund. Expenditures of this nature would be more appropriate from the PPEL or Capital Projects Fund.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281--12.6(1). The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund.

Response - We will comply.

Conclusion - Response accepted.

ALGONA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number 10.553: School Breakfast and
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2006
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I Grants to Local Educational Agencies
Agency Numbers: 0126-G and 0126-GC
Federal Award Year: 2006
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

ALGONA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part IV: Other Findings Related to Statutory Reporting

IV-A-06 Certified Budget - District disbursements for the year ended June 30, 2006 exceeded the amount budgeted in the support services function.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will amend the budget when necessary in the future.

Conclusion - Response accepted.

IV-B-06 Questionable Disbursements - We noted disbursements paid from the Internal Service Fund for Algona Bucks that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review procedures to ensure that all expenditures meet the requirements of the Attorney General's opinion of April, 25, 1979.

Response - We will comply.

Conclusion - Response accepted.

IV-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-06 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Heather Young, Teaching Assistant Spouse	Printing Services	\$1,600
Carl Westling, Board Member Spouse	Speech Judge	\$85
Jessica Laaveg, Teacher Mother	Accompanist	\$625
Karilyn Claude, Teacher Spouse	Official	\$1,455
Richard Dewein, Choir Director Spouse helped with choir concert	Clerical services	\$60
Chris and Anita Gerhardt, Teachers Owns Gerhardt Construction	Walnut plaques	\$125
Tracy Harmon, Kitchen Manager	Catering	\$888

Name, Title and Business Connection	Transaction Description	Amount
Mary Kae Hanson, Teacher Spouse owns Hanson Studio	Photographs	\$110
Sande Rodemeyer, Teacher Son	Official	\$50
Julie Gunderson, Teacher Son	Official	\$220
Jan Struck, Building Secretary Spouse	Official	\$170
Pat Twait, Teacher Son	Services	\$280
Dale Person, Board Member	Official	\$280
Theresa Kuecker, Secretary Son	Official	\$220
Paul and Theresa DeLange, Sub Driver Owns Premier Choice	Fundraising items	\$28,333
Paul and Theresa DeLange, Sub Driver Owns Premier Pizza	Pizza/Concession	\$9,487

In accordance with Chapter 279.7A of the Code of Iowa, the transactions with the Board Members do not appear to be a conflict of interest.

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with the District's teachers, Director of Building & Grounds, Kitchen Manager and sub bus drivers do not appear to represent a conflict of interest.

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with the family members of the District's employees and board members do not appear to represent a conflict of interest.

IV-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-I-06 Certified Annual Report - The Certified Annual Report was not properly certified to the Iowa Department of Education by October 13, 2006.

Recommendation - In the future, the District should ensure the Certified Annual Report is certified timely to the Iowa Department of Education.

Response - We will comply with this recommendation.

Conclusion - Response accepted.

IV-J-06 Financial Condition - We noted during our audit that there were six negative individual account balances totaling \$21,303 in the Student Activity Fund.

Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficit account balances. The District should review purchase approval procedures for the Student Activity Fund and may wish to require additional approval before ordering goods or services from these accounts.

Response - We will comply.

Conclusion - Response accepted.